

### THE GLITTERING MARKET – EXPLORING THE SURGE IN GOLD PRICES

In India, the allure of gold has been culturally significant for centuries, symbolizing wealth, prosperity, status, and a preferred form of investment. Historically, the price of gold in India has seen a steady upward trajectory, with occasional fluctuations influenced by global and domestic factors. From an average price of INR 4,400 per 10 grams in the year 2000, gold prices have climbed significantly, reflecting the nation's growing economy and its citizens' enduring affinity for the precious metal.



In recent years, events such as the COVID-19 pandemic and geopolitical tensions have further impacted gold rates. As of May 2024, the price of 24 karat gold stands at approximately INR 74,015 per 10 grams, marking a notable increase from the previous year's average of INR 65,330. This enduring rise underscores gold's status as a safe asset for investors, particularly in times of economic uncertainty.

### WHAT IS THE SIGNIFICANCE OF GOLD IN INDIA?

Gold holds a very special and significant place in Indian culture, and its importance is multifaceted. Here are some key aspects of gold's importance in India -

#### Cultural Significance

Gold is deeply rooted in Indian history and culture, symbolizing wealth, prosperity, and status. It's an integral part of religious ceremonies across various faiths in India, including Hinduism, Sikhism, Jainism, and Christianity

#### Economic Value

Gold is considered a liquid asset and a reliable store of value, often used for intergenerational wealth transfer. It plays a significant role in India's economy by contributing to employment, foreign exchange earnings, and the trade balance.

#### Religious Connotations

In religious contexts, gold is seen as an auspicious metal. Devotees donate gold to temples, and it's common to purchase gold during religious festivals and occasions.

#### Family Heirloom and Legacy

Gold jewellery and ornaments are often passed down through generations as a family legacy, preserving the family's heritage and saving money on gold purchases over time.

#### Gifting Tradition

Gifting gold is considered auspicious and is a common practice during weddings, birthdays, and childbirth, symbolizing good fortune, blessings, and high esteem.

#### Status Symbol

In India, owning gold is a sign of wealth and social status. People often wear and display gold during important events and celebrations.

### JOURNEY OF GOLD PRICE IN INDIA

The history of gold prices in India is quite extensive, with significant changes over the centuries. Here's a brief overview -

#### Ancient Times

- Gold has been valued in India for thousands of years, with its use in commerce and as a symbol of wealth and power.
- Ancient Indian texts and scriptures mention gold, indicating its importance in ceremonies, as jewellery, and as a form of currency.

#### Post Independence Period

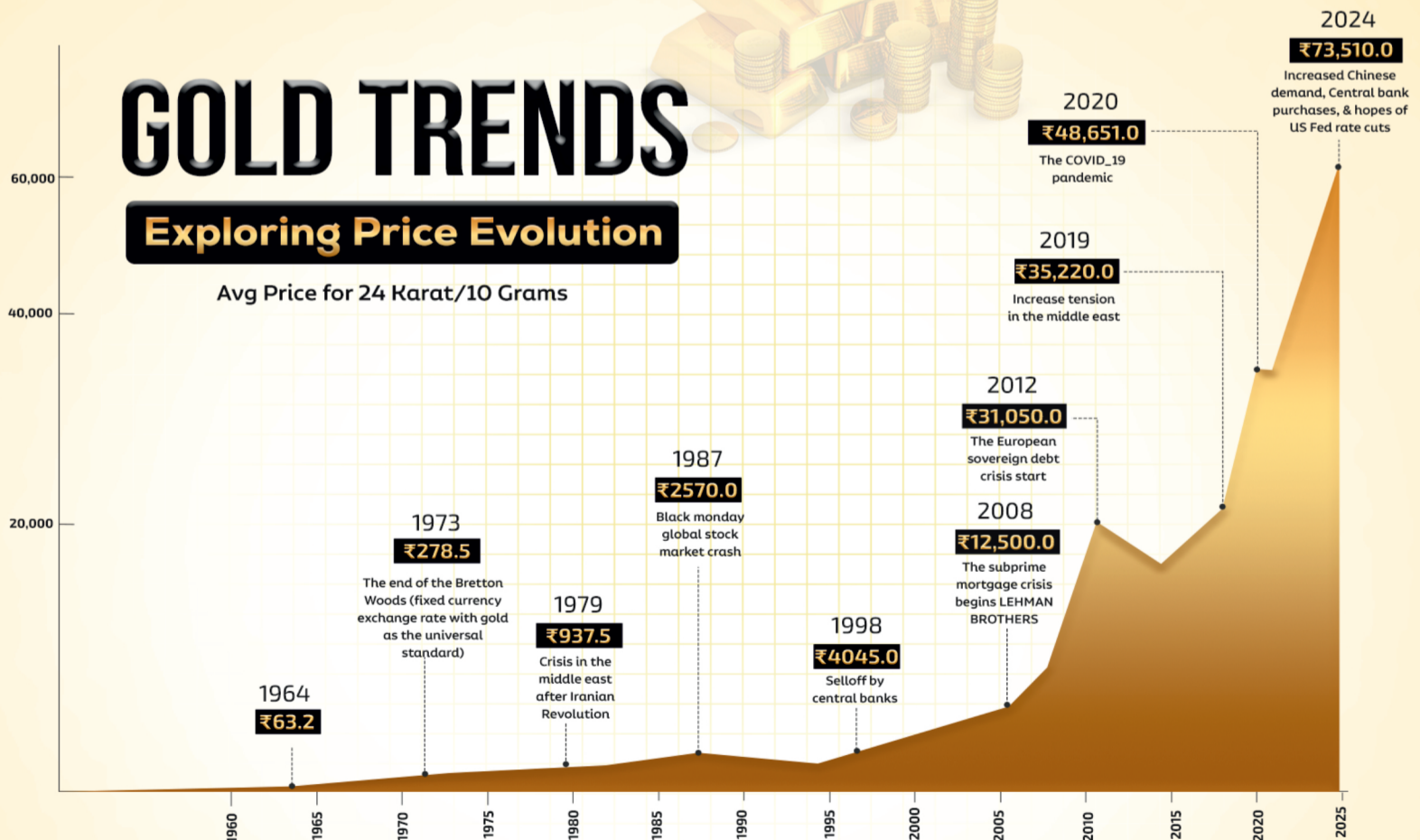
- After gaining independence in 1947, India's gold market continued to evolve, with prices generally increasing over time.
- The price of gold in 1950 was around Rs 100 per 10 gm.



## GOLD TRENDS

### Exploring Price Evolution

Avg Price for 24 Karat/10 Grams



#### Liberalization Period (1991 Onwards)

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- Ancient Indian texts and scriptures mention gold, indicating its importance in ceremonies, as jewellery, and as a form of currency.

**Recent Years**

- o In the last few decades, gold prices have risen substantially, reaching a record high in 2020 due to the COVID19 pandemic as investors sought safe harbor assets.
- o The average price of 24K Gold in Fiscal 2023 was ₹ 1,67,344 per ounce. In 2023, the price of 24K gold in INR was up **+13.80%**.
- o The average annual gold rate in India from 2000 to 2024 shows a consistent increase, with the price in April 2024 being approximately Rs 71,414 per 10 gm.

**Fiscal 2024**

- o The average price of 24K Gold in Fiscal 2023 is ₹ 1,78,180 per ounce.
- o The highest gold price in India in 2024 is ₹ 199,622 per ounce on April 16, 2024.
- o The lowest gold price in India in 2024 was ₹ 165,482 per ounce on February 13, 2024.
- o In 2024, the price of 24K gold in INR is higher than **+12.60%**.

**Gold prices are influenced by various factors, including supply and demand, central bank policies, inflation and deflation, currency strength, and geopolitical tensions. These factors contribute to the dynamic nature of gold pricing in India and globally.**

## WHY ARE GOLD PRICES SOARING IN INDIA?

The increase in gold prices in India in 2024 can be attributed to several factors -

**01**

**Central Bank Activities**

Central banks play a crucial role in the gold market as they hold significant gold reserves. Their buying or selling activities can greatly influence gold prices. Additionally, central bank purchases have been identified as one of the reasons for the rise in gold prices.

**02**

**Inflation Concerns**

Gold is often seen as a hedge against inflation. With persistent inflation eroding the purchasing power of paper currency, investors tend to move towards gold as it maintains value over time.

**03**

**Geopolitical Pressures**

The ongoing tensions in the Middle East have increased the demand for gold. Investors often turn to gold as a safe haven during times of political and economic uncertainty.

**04**

**Interest Rate Cuts**

There is an anticipation of interest rate cuts in the United States, which makes non-yielding assets like gold more attractive compared to interest-bearing investments..

**05**

**Currency Strength**

Since gold is priced in U.S. dollars, the fluctuations in the value of major currencies relative to the dollar can impact gold prices. A weaker dollar typically boosts gold prices as it becomes more affordable for investors holding other currencies.

**06**

**Economic Indicators**

Despite robust economic indicators, the anticipation of interest rate adjustments by the Federal Reserve is a critical factor influencing financial markets and investment strategies.

**07**

**Market Dynamics**

Factors like a decline in US Treasury yields, market volatility, and weak US economic data have also contributed to the increase in gold prices.

**These factors combined have led to a consistent upward trajectory in gold prices in India during 2024. It's notable to remark that the gold market is complex and can be influenced by a myriad of interconnected factors, making it challenging to predict future price movements with certainty. However, the factors mentioned above are some of the key drivers identified for the current increase in gold prices.**

## WHAT ARE THE FACTORS THAT INFLUENCE GOLD RATES IN INDIA?

The gold rates in India are influenced by a variety of factors, which can be broadly categorized as follows -

**• Supply and Demand**

The most fundamental factor affecting gold prices is the balance between its supply and demand. If the production of new gold from mining decreases or if there is an increase in the recycling of gold, it could lead to a supply deficit, pushing the prices up. Conversely, if the demand for gold in industries, technology, or for investment purposes decreases, it could lead to a surplus, causing prices to drop.

**• Reserve Bank of India Policies**

Central banks around the world hold large reserves of gold and their buying or selling activities can significantly impact gold prices. Additionally, monetary policies, including interest rate adjustments and quantitative easing measures, can influence investor sentiment towards gold.

**• Inflation and Deflation**

Gold is often seen as a hedge against inflation. When the cost-of-living increases, the value of gold tends to rise as well. During deflationary periods, when currency values are stable or increasing, gold may lose some of its lustre as investors look for assets that offer yields.

**• Intensity of Currency**

Since gold is priced in U.S. dollars, the strength of the dollar against other currencies can affect gold prices. A weaker dollar makes gold cheaper for investors holding other currencies, which can increase demand and drive-up prices.

**• Geopolitical Tensions**

Political instability, conflicts, and geopolitical tensions can lead to an increase in the demand for gold. In times of uncertainty, investors often turn to gold as a secure haven asset, which can drive up prices.

**• Interest Rates Cut Down**

Gold does not offer an interest yield, so it often competes with interest-bearing assets like bonds. When interest rates are low, gold becomes more attractive as an investment, and its price may rise. Conversely, when interest rates are high, gold may be less appealing, and its price may fall.

**• Investor Sentiment and Speculation**

The speculative activities of investors can also influence gold prices. If investors expect the price of gold to rise, they may buy more of it, which can push prices up. Conversely, if they expect the price to fall, they may sell their gold, which can drive prices down. Government Policies and Regulations Government policies regarding gold, such as import duties, taxes, and other protocols, can affect its price. For instance, if the government increases the import duty on gold, it may lead to higher prices in the domestic market.

**• Local Demand and Supply**

In India, gold is not just an investment; it's also a cultural symbol. Demand peaks during the wedding season and festivals like Diwali, Akshaya Tritiya. Local supply constraints during these times can also affect prices.

**• Global Market Trends**

The international gold market trends play a significant role in determining the gold rate in India. Events like the global pandemics and worldwide financial crisis or a downturn in the stock market can lead to an increase in gold prices as investors look for safer investments.

**These factors are interconnected and can influence each other. For instance, a change in central bank policies can affect inflation rates, which in turn can influence gold prices. Similarly, geopolitical events can affect currency strength, which can impact gold rates. Understanding these factors can help investors make informed decisions about buying and selling gold.**

## EFFECTS OF INCREASING GOLD PRICES

The effects of increasing gold prices in India are multifaceted and have significant implications for the economy and consumers. Here's a detailed look at some of the key impacts -

### Inflationary Pressure

Rising gold prices can contribute to inflationary pressure in the economy. As the price of gold increases, it can lead to higher costs for jewellery manufacturers and retailers. This, in turn, may result in increased prices for gold jewellery and other gold-related products. Higher prices for these goods can impact consumer purchasing power and contribute to overall inflation rates.

### Impact on Current Account Deficit (CAD)

India is a major importer of gold, and increasing gold prices can widen the current account deficit. When the price of gold rises, the value of gold imports also increases, leading to a higher CAD. This puts pressure on the country's foreign exchange reserves and impacts the balance of payments.

### Consumer Demand for Gold

Higher gold prices may affect consumer demand for gold jewellery and other gold products. As prices rise, consumers may be deterred from making purchases or may opt for smaller or less expensive items. This can impact businesses in the jewellery industry, including manufacturers, retailers, and artisans.

### Investment Behavior

Increasing gold prices can influence investment behavior among individuals and households. Some investors see gold as a safe asset during times of economic uncertainty or inflation. Higher prices may attract more investment in gold as a hedge against inflation or as a diversification strategy. This can impact capital flows and investment patterns in the economy.

### Impact on Gold Loans

Gold loans are popular in India, where individuals borrow money by pledging their gold assets as collateral. Increasing gold prices can affect the availability and terms of such loans. Lenders may adjust their loan-to-value ratios or interest rates based on changing gold prices, which could impact borrowers' access to credit.

### Government Revenue

The Indian government earns revenue through customs duties and taxes levied on gold imports. Increasing gold prices can lead to higher import values, resulting in increased customs duties and taxes collected by the government. This additional revenue can contribute to government funds and be utilized for various developmental initiatives.

### Smuggling and Parallel Markets

When gold prices rise significantly, there is a risk of increased smuggling and the emergence of parallel markets. Smuggled gold may enter the country illegally to avoid high import duties, impacting the formal gold market and government revenue. This can also create challenges for regulation and monitoring of the gold industry.

*It's important to note that the effects of increasing gold prices in India can vary depending on other economic considerations, government policies, and global market conditions. The government and policymakers may take measures to manage the impact of rising gold prices on inflation, trade balances, and other aspects of the economy.*

## WHY THE DEMAND FOR GOLD IS SHINING DESPITE OF SOARING IN PRICES?

Gold plays a significant role in the Indian economy, and its prices can have both direct and indirect impacts. Here's a detailed explanation of how gold prices contribute positively to the Indian economy -

### Investment Value

Gold is considered a reliable investment asset in India. Individuals and households view gold as a harbour during times of economic uncertainty or inflation. It is seen as a store of value that can protect wealth over the long term. As the Indian economy continues to grow and income levels rise, more people are likely to invest in gold as a means of wealth preservation.

### Jewellery Demand

The demand for gold jewellery in India is consistently high. Indians have a strong affinity for gold ornaments, which are often passed down through generations as heirlooms. The rising disposable incomes and increasing urbanization in the country contribute to the growth in jewellery demand.

### Festive Seasons

In India, there are several key festive seasons during which the demand for gold surges. Diwali, Dhanteras, Akshaya Tritiya, and weddings are occasions when people traditionally buy gold. These festive periods create spikes in demand as individuals and families purchase gold for personal use or as gifts.

### Wedding Market

Weddings play a significant role in driving the demand for gold in India. Gold jewellery is an essential part of bridal attire, and Indian weddings are known for their elaborate traditions and ceremonies that involve gifting and purchasing gold ornaments.

### Government Policies

The Indian government has implemented various policies to encourage domestic gold consumption and reduce imports. Initiatives such as the Gold Monetization Scheme and Sovereign Gold Bonds aim to channelize household savings into financial instruments linked to gold. These policies help boost the overall demand for gold in India.

*Even with the surging price of gold, the cultural significance, investment value, jewellery demand, festive seasons, wedding market, and supportive government policies contribute to the increasing demand for gold in India, despite of its increasing prices. However, it's important to note that the demand for gold can be influenced by various factors such as economic conditions, government regulations, and global trends.*

## HOW GOLD PRICES CONTRIBUTE TO INDIAN ECONOMY?

### Investment and Savings

Gold is traditionally seen as a safe investment in India. When gold prices rise, it increases the value of gold holdings among Indian households, which is considered a form of savings. This can lead to a wealth effect, where people feel more financially secure and may increase spending, thus stimulating the economy.

### Inflation Hedge

Gold is often used as a hedge against inflation. As the value of currency decreases due to inflation, the value of gold typically increases. This helps preserve the purchasing power of individuals and can stabilize the economy during inflationary periods.

### Collateral for Loans

Gold is commonly pledged as collateral for loans in India. Higher gold prices can increase the borrowing power of individuals and businesses, as the value of their collateral rises. This can lead to increased liquidity in the market and potentially more investment and consumption.

### Attracting Foreign Investment

Rising gold prices can attract foreign investors looking for stable investment opportunities. This can lead to an inflow of foreign currency, which can be beneficial for the economy.

### Rural Economy

Gold is also an essential asset in the rural economy, where banking services may be limited. It acts as a financial security and can be liquidated easily in times of need, supporting the rural economy.

### Attracting Foreign Investment

Rising gold prices can attract foreign investors looking for stable investment opportunities. This can lead to an inflow of foreign currency, which can be beneficial for the economy.

### Government Reserves

The Indian government holds a substantial amount of gold reserves. An increase in gold prices can enhance the value of these reserves, strengthening the financial position of the government.

The gold prices influence various aspects of the Indian economy, from individual savings and investments to broader economic indicators like trade balance and inflation. While fluctuations in gold prices can have mixed effects, stable or increasing prices generally have a positive impact on the economy by enhancing wealth, providing an inflation hedge, and supporting industries related to gold

**WHEN IS IT EXPECTED THAT THE GOLD WILL TOUCH THE INR 2,00,000 MARK?**

Predicting the exact time when gold prices will reach a specific mark, such as Rs 2,00,000, is quite challenging due to the numerous factors that influence market prices. However, experts analyse various elements like geopolitical events, demand and supply dynamics, inflation rates, currency fluctuations, and more to make educated forecasts.

According to recent expert analysis, gold prices have shown a significant increase over the past years, and if the trend continues, it's possible that gold could reach the Rs 2,00,000 mark within the next 7-12 years.

It's important to note that these predictions are based on historical data and current trends, and actual future prices can be affected by unforeseen events and changes in the global economic landscape.

**WHAT ARE THE ALTERNATIVES AVAILABLE TO INVEST IN OTHER THAN PHYSICAL GOLD?**

The rise in physical gold rates in India, over the years, has a comprehensive impact on its citizens. As gold is deeply intertwined with cultural practices and financial security in India, higher prices can strain household budgets, especially among the middle and lower-income groups who traditionally invest in gold as a savings mechanism. These segments are the most affected as they may find it challenging to purchase gold for weddings or as an investment.

To mitigate the impact, individuals could consider alternatives to physical gold, such as Gold Exchange Traded Funds (ETFs), Sovereign Gold Bonds (SGBs). These options provide the benefits of gold investment without the need for physical storage, often come with lower transaction costs, and can be more liquid and tax efficient.

**Sovereign Gold Bonds**

If you buy Gold Coins and Gold Bars as Investment, you are wasting a golden Opportunity to earn some great returns. SBI Gold Bonds are RBI mandated Certificates issued against grams of Gold, allowing the Individuals to invest in Gold without the strain of safekeeping their physical Assets. SGB act as a secure Investment tool among Individuals as the Gold prices are less sensitive to Market fluctuations.



**A SGB is dominated in grams of Gold.** One can get multiples of Grams (1gmX). So, the minimum Investment is 1 Gram. The maximum Gold one can buy through these Gold Bonds is 4 Kgs and a Trust can buy is up to 20 Kgs. The tenure of these bonds is 8 years. Moreover, Nomination facility is also available. Government has provided the option of offline as well as online buying to the buyers.

**Furthermore, by buying these bonds you will be eligible for earning an interest.** The Gold Bond interest rate is **2.50%** per annum on the amount of initial investment. Interest will be credited semi-annually to the bank account of the investor and the last interest will be payable on maturity along with the principal. Additionally, SGB can be used as collateral for loans Up to **75%** of the market value of such bonds can be availed as a loan from any scheduled financial institution, as stipulated by the RBI's LTV regulations.

**Talking about the encashment of these bonds, though the tenor of the bond is 8 years, early encashment/redemption of the bond is allowed after fifth year from the date of issue on coupon payment dates.** On the other hand, in the case of online buying of SGBs, one doesn't have to wait for 5 years for redemption. An online buyer can redeem it on the same day of the issuance of Bonds.

**Moreover, SGBs also come with the tax benefits.** If you hold SGBs for the entire tenure of eight years, there will be no capital gains tax on maturity. The maturity proceeds of SGBs will also be tax-free on maturity. But if you prematurely sell SGBs before maturity, a capital gains tax of 10% will apply to it.

**Gold ETFs**

Gold ETFs, or Gold Exchange Traded Funds, are investment funds that are traded on stock exchanges, much like stocks. Each unit of a Gold ETF represents a portion of gold bullion, allowing investors to gain exposure to the price movements of gold without the need to physically hold the metal.

**Gold ETFs serve as an alternative to physical gold because they offer several advantages:**

- Gold ETFs can be bought and sold on the stock exchange, providing liquidity and ease of trading.
- Investors don't have to worry about the storage, security, or insurance of physical gold.
- The gold backing Gold ETFs is of assured purity.

**One can easily invest in Gold ETF's. To invest in Gold ETFs, individuals need to:**

- Open a Trading and DEMAT Account with a stockbroker.
- Choose a Gold ETF to invest in, based on research and investment goals.
- Place an order for the gold ETF units through the stock exchange.

**Best Gold ETFs in India Based on Returns:**

Name	AUM (₹ in crore)	NAV (In ₹)	1Y Return (%)	5Y CAGR (%)
Nippon India ETF Gold BeES	9,781.14	60.15	10.12	13.87
SBI-ETF Gold	4,228.54	61.83	10.20	13.84
HDFC Gold Exchange Traded Fund	4,580.00	61.72	10.60	13.76
Kotak Gold ETF	3,733.00	60.38	10.28	13.76
ICICI Prudential Gold ETF	5,170.00	62.44	9.80	13.70

Point to be noted that Profits on the sale/redemption of Gold ETFs or units of gold saving funds bought after 31st March 2013 will be taxed as short capital gains i.e. 15% irrespective of the holding period. The profits on sale after 36 months of holding are treated as long-term capital gains and taxed at a flat 10% after applying indexation.

**Road Ahead**  
 The outlook for gold prices in India after reaching an all-time high in 2024 appears cautiously optimistic. While the prices have seen a significant rise, reaching approximately INR 71,414 per 10 grams in April 2024, experts suggest that a correction might occur in the first quarter. However, factors such as a weak rupee, consistent overseas prices, and steady demand from the physical and jewellery markets are expected to support the prices. Predictions indicate a trading range between INR 57,000 and INR 67,000 per 10 grams for the year. The market's sentiment towards gold remains positive, considering its status as a secure asset amid economic uncertainties.



happy  
**AKSHAYA**  
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